

Message Text

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FM AMEMBASSY BANGKOK

TO SECSTATE WASHDC 1640

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TAGS: BENC, TH

SUBJECT: MAJOR PROJECT: CEMENT PLANTS EXPANSION PLANS

REF: A) BANGKOK 5425, B) BANGKOK 6652, C) BANGKOK A-46, D) STATE
70981

1. RTG'S BOARD OF INVESTMENT (BOI) HAS COMPLETED ITS DRAFT PROPOSAL TO BE SUBMITTED FOR APPROVAL OF PROMOTIONAL PRIVILEGES (REF A) FOR EXPANSION OF THAILAND'S CEMENT INDUSTRY. THOUGH THE PROPOSAL HAS BEEN AGREED UPON IN PRINCIPLE, IT HAS NOT BEEN FINALIZED. ANNOUNCEMENTS FOR THE FINAL APPROVAL IS EXPECTED VERY SOON.

2. SIAM CEMENT, ALREADY WITH 70-74 PER CENT OF THE MARKET, IS THE ONLY ONE OF THAILAND'S THREE CEMENT COMPANIES WITH RELATIVELY IMMEDIATE EXPANSION PLANS. THIS GIANT OF THE INDUSTRY WHICH OPERATES FOUR PLANTS IN THAILAND HAS A TOTAL ANNUAL PRODUCTION CAPACITY OF 3.5 MILLION TONS AND DEFINITIVE PLANS TO EXPAND TWO OF ITS PLANTS FOR AN ADDITIONAL 1,330,000 TONS OF CEMENT ANNUALLY. THE ANNUAL CAPACITY OF ITS THUNG SONG PLANT IN SOUTHERN THAILAND IS TO BE INCREASED BY 330,000 TONS AND TO ITS THA LUANG PLANT IN THE CENTRAL PART OF THE COUNTRY, ANOTHER MILLION TONS IS TO BE ADDED TO ITS CAPACITY. INVITATIONS TO TENDER ON THESE PROJECTS WILL BE ANNOUNCED WITHIN THE NEXT MONTH OR TWO. TOTAL INVESTMENTS IN THESE TWO PROJECTS WILL APPROXIMATE \$100 MILLION. AN OFFICIAL OF THE FIRM STATED, UNOFFICIALLY, THAT HE EXPECTS THE SUPPLY CONTRACT FOR THE KILNS TO BE AWARDED TO A JAPANESE FIRM

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AND THE CONTRACT FOR THE COOLER (OR DRYING EQUIPMENT) TO GO TO FULLER CO. OF CATASAUQUA, PENNSYLVANIA (U.S.). FINANCING OF THE PROJECTS IS YET UNDECIDED BUT SIAM CEMENT IS CONSIDERING UTILIZING COMMERCIAL AND/OR EXPORT-IMPORT BANKS AND SUPPLIERS' CREDITS FOR ABOUT 60 PER CENT OF THE REQUIRED INVESTMENT.

2. THAILAND'S CEMENT PRODUCTION GREW AT THE RATE OF 15 PER

CENT IN 1976 WITH THE PRODUCERS OPERATING AT/OR NEAR CAPACITY. THE INDUSTRY'S ANNUAL PRODUCTION CAPACITY IS CURRENTLY FIVE MILLION TONS. CONSERVATIVE GROWTH RATES FOR 1977 AND 1978 ARE PROJECTED AT 18 PER CENT AND 14 PER CENT RESPECTIVELY. IN 1979 AND THEREAFTER, A NINE PER CENT GROWTH IS ANTICIPATED. SHOULD THE INDUSTRY GROW AS EXPECTED, THAILAND, TO MEET ITS DEMAND, WILL FIND IT NECESSARY TO IMPORT 98,000 TONS THIS YEAR AND 500,000 TONS IN 1978.

3. ALERT TO THIS POSSIBILITY, RTG IS ENCOURAGING EXPANSION OF THE INDUSTRY THROUGH BOI'S PROPOSAL AND THE ELIMINATION LAST MONTH OF PRICE CONTROLS. PRIOR TO RTG'S ANNOUNCEMENT ON MARCH 28 THAT IT WAS REMOVING PRICE CONTROLS ON CEMENT, NONE OF THE PRODUCERS WAS SERIOUSLY CONSIDERING EXPANSION BECAUSE THE CONTROL PRICE WAS THOUGHT TO BE TOO LOW TO SERVICE THE DEBT THAT WOULD BE INCURRED.

4. JALAPRATHAN CEMENT CO., AN AFFILIATE OF KAISER CEMENT AND GYPSUM CORP., IS CURRENTLY OPERATING AT FULL CAPACITY OF 900,000 TONS ANNUALLY. IT IS CONSIDERING EXPANDING ITS PLANT FACILITIES TO PRODUCE AN ADDITIONAL 800,000 TONS BUT PREFERS TO WAIT FOR SIAM'S LEADERSHIP IN BRINGING ABOUT A PRICE INCREASE FROM THE CURRENT \$33 PER TON TO/OR NEAR \$40. MANAGEMENT BELIEVES THAT A \$40 PRICE IS REQUIRED FOR A PAYOFF OF EXPANSION COST OVER A REASONABLE PERIOD OF TIME. CONSIDERING THE FACT THAT SIAM CEMENT IS 30 PER CENT OWNED BY CROWN PROPERTIES, JALAPRATHAN IS APPREHENSIVE ABOUT THE INITIATIVES SIAM CEMENT MAY TAKE IN RAISING PRICES. SIAM CEMENT DOES, IN FACT, BELIEVE THAT A \$40 PER TON PRICE WOULD BE EXCESSIVE.
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5. SIAM CITY CEMENT (SCC) IS CONSIDERING THE EXPANSION OF ITS PRODUCTION FACILITIES. SMALLEST OF THE THREE PRODUCERS IN THAILAND, SCC HAS DEFERRED ITS DECISION UNTIL LEARNING MORE ABOUT THE DETAILS OF BOI'S PROPOSAL. WITH AN ANNUAL PRODUCTION CAPACITY OF 600,000 TONS AND ONLY 12 PER CENT MARKET SHARE, THIS COMPANY IS OPERATING AT ABOUT 90 PER CENT CAPACITY.

6. EMBASSY WILL CONTINUE TO REPORT ON FURTHER DEVELOPMENTS AS THEY OCCUR.
WHITEHOUSE

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